

Endowment Fund Investment Board

Analyst: Houston

Historical Summary

OPERATING BUDGET	FY 2002 Total App	FY 2002 Actual	FY 2003 Approp	FY 2004 Request	FY 2004 Gov Rec
BY FUND CATEGORY					
Dedicated	604,500	565,900	587,600	666,800	630,300
Percent Change:		(6.4%)	3.8%	13.5%	7.3%
BY OBJECT OF EXPENDITURE					
Personnel Costs	403,400	372,900	390,000	440,700	408,800
Operating Expenditures	192,100	184,000	193,100	220,300	215,700
Capital Outlay	9,000	9,000	4,500	5,800	5,800
Total:	604,500	565,900	587,600	666,800	630,300
Full-Time Positions (FTP)	5.50	5.50	5.00	5.00	5.00

Division Description

The State Legislature created the Endowment Fund Investment Board in 1969 (Idaho Code, §57-718), after the passage of a constitutional amendment in 1968. Through active management of the endowment funds (§57-721) and the State Insurance Fund (§72-912), the Endowment Fund Investment Board provides income to the funds' beneficiaries and growth of principal through realized gains. The board is also responsible for contracting the investment managers for the Judge's Retirement Fund (§1-2008).

Recent endowment reform moved the Endowment Fund Investment Board from the Executive Office of the Governor to the Board of Land Commissioners effective July 1, 2000. Therefore, the FY 1999 and FY 2000 actual expenditures are shown in the Executive Office of the Governor.

Endowment Reform: The 1998 legislature approved four pieces of legislation (HJM 9, HJR 6, HJR 8, and HB 643aa) that began the latest round of "Endowment Reform". 1) HJM 9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR 6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR 1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR 8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) HB 643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board, set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). SB 1107 of 1999 changed the effective date of certain sections of HB 643aa to allow investment in equities effective February 15, 1999.

Furthermore, HB 690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with HB643aa which became effective July 1, 2000. However, during the 2000 session, the legislature resolved that conflict by repealing the Public Building Endowment.

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2003 Original Appropriation	5.00	0	587,600	5.00	0	587,600
Removal of One-Time Expenditures	0.00	0	(4,500)	0.00	0	(4,500)
FY 2004 Base	5.00	0	583,100	5.00	0	583,100
Personnel Cost Rollups	0.00	0	4,100	0.00	0	4,800
Inflationary Adjustments	0.00	0	4,600	0.00	0	0
Replacement Items	0.00	0	5,800	0.00	0	5,800
Nonstandard Adjustments	0.00	0	17,600	0.00	0	17,600
Change in Employee Compensation	0.00	0	2,900	0.00	0	0
Fund Shifts	0.00	0	0	0.00	0	0
FY 2004 Program Maintenance	5.00	0	618,100	5.00	0	611,300
1. Continuous Appropriation	0.00	0	0	0.00	0	0
2. Upgrade Manager Position	0.00	0	43,700	0.00	0	14,000
3. Travel Costs	0.00	0	5,000	0.00	0	5,000
FY 2004 Total	5.00	0	666,800	5.00	0	630,300
Change from Original Appropriation	0.00	0	79,200	0.00	0	42,700
% Change from Original Appropriation			13.5%			7.3%

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2003 Original Appropriation					
	5.00	0	587,600	0	587,600
Removal of One-Time Expenditures					
Remove one-time funding to replace two computers for \$3,100 and two fireproof file cabinets for \$1,400.					
Agency Request	0.00	0	(4,500)	0	(4,500)
Governor's Recommendation	0.00	0	(4,500)	0	(4,500)
FY 2004 Base					
Agency Request	5.00	0	583,100	0	583,100
Governor's Recommendation	5.00	0	583,100	0	583,100
Personnel Cost Rollups					
Includes the employer portion of estimated changes in employee benefit costs.					
Agency Request	0.00	0	4,100	0	4,100
<i>The Governor also recommends additional funding to be applied to the employee paid portion of health and dental insurance cost increases, in order to prevent employees from experiencing a reduction in take-home pay.</i>					
Governor's Recommendation	0.00	0	4,800	0	4,800
Inflationary Adjustments					
Includes a general inflationary increase of 2.4% in operating expenditures and trustee/benefit payments.					
Agency Request	0.00	0	4,600	0	4,600
<i>The Governor recommends no increase for general inflation.</i>					
Governor's Recommendation	0.00	0	0	0	0
Replacement Items					
Replace two computers for \$3,000 and four monitors for \$2,800. Computer equipment is on a three-year replacement cycle.					
Agency Request	0.00	0	5,800	0	5,800
Governor's Recommendation	0.00	0	5,800	0	5,800
Nonstandard Adjustments					
Additional funding of \$11,500 is requested to pay increased audit costs. Recent changes to federal regulations are requiring accounting firms to add new procedures to their audits. This decision unit also includes \$5,600 for Attorney General fees, \$100 for State Controller fees, \$100 for risk management fees, and \$300 for State Treasurer fees.					
Agency Request	0.00	0	17,600	0	17,600
Governor's Recommendation	0.00	0	17,600	0	17,600
Change in Employee Compensation					
Reflects the cost of a 1% salary increase for permanent and group positions.					
Agency Request	0.00	0	2,900	0	2,900
<i>The Governor does not recommend new funding for state employee pay increases. Compensation increases may be funded with agency salary savings wherever possible.</i>					
Governor's Recommendation	0.00	0	0	0	0

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
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Fund Shifts

The request includes a fund shift of \$4,600 from the Endowment Administrative Fund to the State Insurance Fund to reflect an increase in the percentage of the State Insurance Fund's portion of the portfolio from 25.5% in FY 2003 to 26.6% in FY 2004.

Agency Request	0.00	0	0	0	0
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

FY 2004 Program Maintenance

Agency Request	5.00	0	618,100	0	618,100
<i>Governor's Recommendation</i>	<i>5.00</i>	<i>0</i>	<i>611,300</i>	<i>0</i>	<i>611,300</i>

1. Continuous Appropriation

The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be determined to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform), \$3,215,995 for FY 2002, and are estimated to be \$3.3 million for FY 2003 and \$3.5 million for FY 2004.

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2003, through June 30, 2004.

Agency Request	0.00	0	0	0	0
<i>Recommended by the Governor.</i>					
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>

2. Upgrade Manager Position

Currently the manager of investments position is budgeted at a pay grade "S" with a salary of \$92,600 plus \$23,100 in benefits for a total position cost of \$115,700. Although this is a non-classified position, the Division of Human Resources recommends the position in a paygrade of "W" or "X". This decision unit upgrades the manager's position costs to \$159,400 with a salary of \$130,500 and benefits of \$28,900, well above the policy for pay grade "W". Funding is 74% endowment earnings and 26% State Insurance Fund. (Ongoing)

Agency Request	0.00	0	43,700	0	43,700
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Brings the amount budgeted for the investment manager position's salary to a point where it would be 10% above the minimum salary for the highest pay grade, pay grade "X", in the state's compensation schedule. The budgeted salary would go from \$92,700 to \$104,100 plus \$2,600 for benefits.

<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>14,000</i>	<i>0</i>	<i>14,000</i>
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3. Travel Costs

A new manager of investments will be doing a lot of travel to meet with outside equity managers. This decision unit requests ongoing operating expenditures to pay for increased travel costs. Funding is 74% endowment earnings and 26% State Insurance Fund. (Ongoing)

Agency Request	0.00	0	5,000	0	5,000
<i>Governor's Recommendation</i>	<i>0.00</i>	<i>0</i>	<i>5,000</i>	<i>0</i>	<i>5,000</i>

FY 2004 Total

Agency Request	5.00	0	666,800	0	666,800
<i>Governor's Recommendation</i>	<i>5.00</i>	<i>0</i>	<i>630,300</i>	<i>0</i>	<i>630,300</i>

Endowment Fund Investment Board

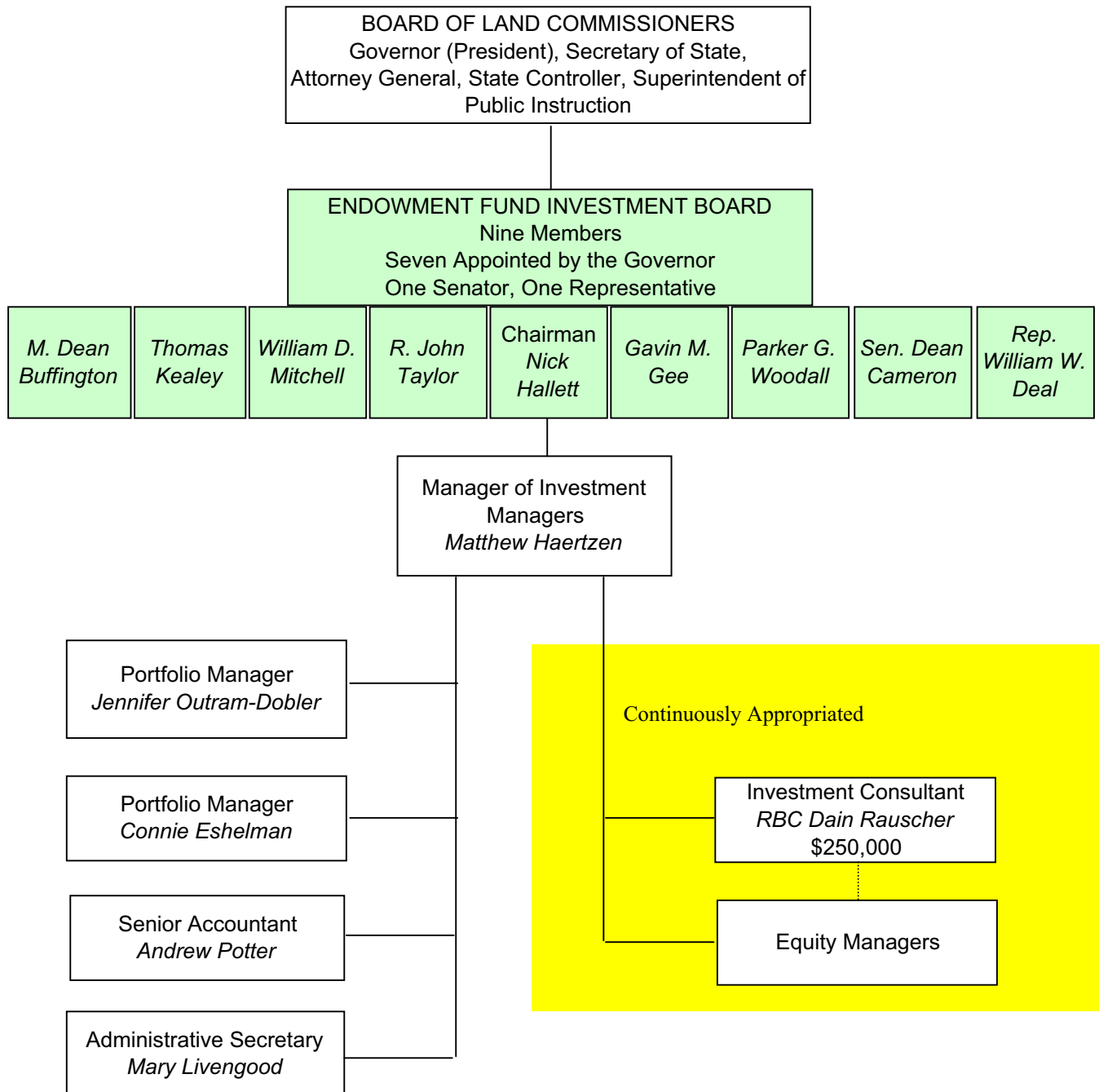
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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
Agency Request					
Change from Original App	0.00	0	79,200	0	79,200
% Change from Original App	0.0%		13.5%		13.5%
Governor's Recommendation					
Change from Original App	0.00	0	42,700	0	42,700
% Change from Original App	0.0%		7.3%		7.3%

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Issues & Information

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Endowment Fund Investment Board

Issues & Information

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State Insurance Fund - Performance

All numbers are in millions of dollars	FY 2001 Actual	FY 2002 Actual	FY 2003 Estimate	FY 2004 Estimate
1. State Insurance Fund (book values)	\$293.15	\$290.09	\$295.90	\$297.00
2. State Insurance Fund - income earned	\$17.10	\$15.64	\$15.50	\$16.00
3. Cost of management by Endowment Fund Investment Board (\$ millions)	\$0.15	\$0.16	\$0.14	\$0.16
4. Admin cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.05%	0.06%	0.05%	0.05%
5. State Insurance Fund - percentage return*	5.8%	5.4%	5.3%	5.4%

* Percentage return calculated as the income earned divided by the average of the current and previous fiscal year-end fund values.

Endowment Funds - Performance

1. Public School Endowment Fund Value	\$545.1	\$464.9	\$474.2	\$498.0
2. Pooled Endowment Funds Value	\$256.8	\$218.2	\$222.7	\$233.8
3. Total Public School and Pooled Endowments	<u>\$801.9</u>	<u>\$683.2</u>	<u>\$696.9</u>	<u>\$731.8</u>
4. Public School Endowment Distribution **	\$44.70	\$47.68	\$43.31	\$37.75
5. Pooled Endowment Distribution	\$20.75	\$21.97	\$19.93	\$17.36
6. Public School and Pooled Distributions	<u>\$65.45</u>	<u>\$69.64</u>	<u>\$63.24</u>	<u>\$55.11</u>
7. Cost of outside consultants, equity managers, and bank fees (\$ millions)	\$1.33	\$3.22	\$3.30	\$3.48
8. Cost of management by Endowment Fund Investment Board (\$ millions)	\$0.40	\$0.41	\$0.45	\$0.50
9. Admin cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.22%	0.53%	0.54%	0.54%
10. Beginning Value July 1	805.9	801.9	683.2	696.9
Net Contributions (Distributions) ***	20.5	(22.4)	(25.2)	(9.1)
Investment Gain (Loss)	(24.5)	(96.3)	39.0	44.0
Ending Value June 30	801.9	683.2	696.9	731.8
All Endowments - percentage return****	-3.0%	-12.0%	5.7%	6.3%

** FY 2001 and FY 2002 based on 8.5% spending policy; FY 2003 on 8.0%; FY 2004 on 7.5% spending policy

*** Assumes \$38 million Lands contributions in FY 2003 and 46 million in FY 2004.

**** Percentage return calculated as the Investment Gain (Loss) over beginning value.

Endowment Fund Investment Board Issues & Information

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Endowment Distributions to the Beneficiaries

On August 30, 2002, the Endowment Fund Investment Board (EFIB) submitted their budget request to the Division of Financial Management and the Legislative Services Office. The budget contains their FY 2004 endowment distribution recommendations for FY 2004. For public schools, the FY 2004 recommendation is \$5.6 million less than the FY 2003 appropriation. Including the pooled endowments, the FY 2004 distribution is \$8.1 million or 12.9% less than this year.

Institution	Actual Distributions					Approp FY 2003	EFIB FY 2004	Difference FY 04-03
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002			
Public Schools	\$ 40,040,799	\$ 41,331,115	\$ 42,753,811	\$ 44,700,000	\$ 47,675,000	\$ 43,313,000	\$ 37,750,000	\$ (5,563,000)
Agricultural College	888,342	873,990	964,277	1,127,000	1,280,000	1,139,000	960,000	(179,000)
Charitable Institutions	3,395,470	3,840,734	3,806,215	4,502,000	4,673,000	4,070,000	3,430,000	(640,000)
Normal School	3,158,530	3,312,164	3,870,068	3,788,000	4,068,000	3,695,000	3,195,000	(500,000)
Penitentiary	1,122,762	1,200,994	1,251,157	1,521,000	1,566,000	1,358,000	1,215,000	(143,000)
School of Science	3,096,427	3,535,388	3,778,442	4,479,000	4,709,000	4,254,000	3,785,000	(469,000)
Mental Hospital	1,944,081	1,716,600	2,462,520	1,845,000	2,024,000	1,905,000	1,660,000	(245,000)
University of Idaho	2,590,538	2,627,030	3,092,604	3,488,000	3,645,000	3,504,000	3,110,000	(394,000)
Total 1	\$ 56,236,949	\$ 58,438,015	\$ 61,979,094	\$ 65,450,000	\$ 69,640,000	\$ 63,238,000	\$ 55,105,000	\$ (8,133,000)
Capitol*	1,067,873	645,713	1,829,459	816,908	854,610			
Total 2	\$ 57,304,822	\$ 59,083,728	\$ 63,808,553	\$ 66,266,908	\$ 70,494,610			

* Earnings from the Capitol Endowment are credited directly to the income fund and do not require land board approval.

Expressed as a percent change from the previous Fiscal Year

Institution	Actual Distributions				Approp FY 2003	EFIB FY 2004
	FY 1999	FY 2000	FY 2001	FY 2002		
Public Schools	3.2%	3.4%	4.6%	6.7%	-9.1%	-12.8%
Agricultural College	-1.6%	10.3%	16.9%	13.6%	-11.0%	-15.7%
Charitable Institutions	13.1%	-0.9%	18.3%	3.8%	-12.9%	-15.7%
Normal School	4.9%	16.8%	-2.1%	7.4%	-9.2%	-13.5%
Penitentiary	7.0%	4.2%	21.6%	3.0%	-13.3%	-10.5%
School of Science	14.2%	6.9%	18.5%	5.1%	-9.7%	-11.0%
Mental Hospital	-11.7%	43.5%	-25.1%	9.7%	-5.9%	-12.9%
University of Idaho	1.4%	17.7%	12.8%	4.5%	-3.9%	-11.2%
Total 1	3.9%	6.1%	5.6%	6.4%	-9.2%	-12.9%

Detailed Endowment Distributions to the Beneficiaries**

Institution (Agency Code)	Detail	Actual Distributions			Approp FY 2003	EFIB FY 2004	Difference FY 04-03
		FY 2000	FY 2001	FY 2002			
Public Schools (170)	0481-01	\$ 42,753,811	\$ 44,700,000	\$ 47,675,000	\$ 43,313,000	\$ 37,750,000	\$ (5,563,000)
Agricultural College (514)	0481-02	964,277	1,127,000	1,280,000	1,139,000	960,000	(179,000)
Charitable Institutions							
4/15 Idaho State University (513)	0481-03	1,014,991	1,200,533	1,246,133	1,085,400	914,700	(170,700)
4/15 State Juv Corr Center (286)	0481-29	1,014,991	1,200,533	1,246,133	1,085,400	914,700	(170,700)
4/15 State Hospital North (270)	0481-26	1,014,991	1,200,533	1,246,133	1,085,400	914,700	(170,700)
5/30 Veterans Home (444)	0481-24	634,369	750,333	778,833	678,400	571,700	(106,700)
1/30 School for Deaf & Blind (502)	0481-03	126,874	150,067	155,767	135,700	114,400	(21,300)
Normal School							
1/2 to ISU Col of Ed (513)	0481-04	1,935,034	1,894,000	2,034,000	1,847,500	1,597,500	(250,000)
1/2 to LCSC (511)	0481-04	1,935,034	1,894,000	2,034,000	1,847,500	1,597,500	(250,000)
Penitentiary (230)	0481-05	1,251,157	1,521,000	1,566,000	1,358,000	1,215,000	(143,000)
School of Science (514)	0481-06	3,778,442	4,479,000	4,709,000	4,254,000	3,785,000	(469,000)
Mental Hospital (270)	0481-07	2,462,520	1,845,000	2,024,000	1,905,000	1,660,000	(245,000)
University of Idaho (514)	0481-08	3,092,604	3,488,000	3,645,000	3,504,000	3,110,000	(394,000)
Total 1		\$ 61,979,094	\$ 65,450,000	\$ 69,640,000	\$ 63,238,300	\$ 55,105,200	\$ (8,133,100)
Capitol (200)	0481-09	1,829,459	816,908	854,610			
Total 2		\$ 63,808,553	\$ 66,266,908	\$ 70,494,610			